

Chapter 8 – Program Monitoring & Audit

A. Introduction

The purpose of monitoring is to verify that the programs are progressing as planned, that the necessary records are being maintained, that contracts and purchase orders are appropriate and are being let in accordance with the required procurement procedures, and that specific program requirements and objectives are being met.

The purpose of an audit is to determine, upon completion of all activities, that the award was administered in accordance with all applicable state and federal laws, and in full compliance with award objectives.

B. Self-Monitoring

To anticipate and correct problems at the earliest possible stage, the recipient should perform periodic self-monitoring. Complex programs require more frequent monitorings, simple programs may require only one. In any event, it is particularly recommended that a self-monitoring be completed prior to the end of the award period or a visit by Indiana Housing Finance Authority (IHFA) Community Development Staff or State Board of Accounts Auditor.

B. Indiana Housing Finance Authority Monitoring

For those programs determined to need special attention, IHFA may conduct one or more monitoring visits while award activities are in full progress. Some of the more common factors that would signal special attention include: activity appears behind schedule, previous audit or monitoring findings of recipient or administrative firm, high dollar amount of award, inexperience of recipient or administrative firm, and/or complexity of program. These visits will combine on-site technical assistance with compliance review. However, if the recipient's systems are found to be nonexistent or are not functioning properly, other actions could be taken by IHFA, such as suspension of funding until appropriate corrective actions are taken or termination of funding altogether.

The planning programs are typically monitored via a desktop monitoring process. For most recipients, this will occur after submission of the Close-Out package to IHFA. IHFA will mail out a letter asking for the required desktop monitoring items listed below.

1. *National Objective* – The recipient is required to provide a narrative to IHFA detailing the activities undertaken and the goals reached under the award. The recipient must submit documentation that supports the activities undertaken such as: brochures, manuals, training materials, conference schedules, etc.
2. *Financial Management* – The recipient is required to submit the Federal Cash Control Register and Ledger of Appropriations, Encumbrances, Disbursements, and Balances. In addition, IHFA may request that the recipient provide support documentation on at least one paid claim.

3. Procurement – If any procurement took place under the award, the recipient is required to provide the following:

- Copy of the Request for Proposals
- Copy of the Evaluation of Each Proposal Received
- Copy of the Contractor Obligation Control Ledger
- Copy of the Contractor Expenditure Ledger
- Documentation showing the solicitation of MBE/WBE firms

IHFA will review the materials submitted in response to the desktop monitoring and will not come on-site for a monitoring unless the desktop review warrants a more thorough compliance monitoring.

Results of Monitoring Review

Upon review of the submitted desktop monitoring items, the recipient will receive a formal monitoring response letter. The letter will list those areas of compliance that were reviewed and detail the results of the review. Determinations must be classified as (1) satisfactory; (2) Findings - clear statutory or regulatory violations; (3) Concerns – missing or unclear issues involving statutory or regulatory violations or issues not involving a statutory or regulatory requirement.

Satisfactory is reported when the review results in a determination that the recipient is meeting its statutory and regulatory responsibilities.

Findings are reported when the review of the recipient's performance reveals a specific, identifiable violation of a statutory or regulatory requirement about which there is no question or there is inadequate support documentation to verify meeting statutory and/or regulatory responsibilities.

Concerns are reported when the results of the review are inconclusive, that is, they raise a question of whether or not a violation of a statutory or regulatory requirement has occurred, or compliance can be demonstrated or involves an issue that is not a statutory or regulatory requirement, but may involve management or program improvements. Concerns may also be raised where the recipient is in technical compliance with statutory and/or regulatory requirements, but appears to circumvent the intent of those requirements.

Determination and Responses

A review letter is submitted to the recipient within thirty (30) days of completion of the monitoring review and will require the recipient to provide a written response to any findings, questions of performance and/or concerns within thirty (30) days of receipt of the letter. The letter will summarize all positive and negative conclusions and the basis for those conclusions.

For a finding, the recipient is normally requested to explain, within a specified period, what steps it will take to remedy and/or prevent a recurrence of the violation.

For a concern, the recipient is asked for specific information to resolve the question, within a specified period. If the state suggests certain actions, those suggestions are fully optional; the recipient may choose to adopt those actions or present alternatives of its own design.

Clearing Issues/Findings

The recipient must submit a response to identified issues within thirty (30) days of receipt of the monitoring letter. That response may include a request for additional time to research the issue or prepare the response. It is most imperative that recipients adhere to the monitoring response schedule. Where a recipient fails to be responsive or timely, sanctions may be imposed.

If the recipient indicates it has taken specific actions to clear a finding, the reviewer must verify that these actions have taken place before clearing the finding. If the nature of the violation is serious, or if it represents a recurrence of a previously identified issue, the reviewer may need to verify that corrective measures have been adopted before clearing the finding. Once the review indicates that satisfactory action has taken place, the reviewer will send a letter to the recipient indicating that the finding has been resolved.

Upon review of information submitted in response to a concern, the reviewer will determine if the information is satisfactory. If there is no doubt that the statutory or regulatory requirement has been met, the reviewer will send a letter indicating that the matter is resolved. If the response leads the reviewer to the conclusion that a statutory or regulatory violation has taken place, the reviewer will make a finding. The recipient will receive written notice that a finding has been made in the matter and will be given a specific action to resolve the finding.

Sanctions

If the review or monitoring results in any negative determination, or if IHFA otherwise has reason to believe that the recipient has failed to comply in a substantial or serious manner with any requirement of the Federal Act or other program guidelines, IHFA may elect to take one or more actions in order to (1) prevent a continuation of the deficiency, (2) mitigate, to the extent possible, the adverse effects or consequences of the deficiency, or (3) prevent a recurrence of the deficiency. In some instances, IHFA action is dictated by the nature of the violation and the sanction may be specifically prescribed under federal law or regulation. IHFA may pursue one or more of the following sanctions to correct violations and/or deficiencies in recipient compliance:

- (1) Request the recipient to submit additional information pertinent to the negative determinations and the recipient's proposal for corrective action;
- (2) Issue a letter of warning that advises the recipient or its administrator of the deficiency and puts the recipient or its administrator on notice that more serious sanctions will be imposed if the deficiency is not corrected or is repeated; advise the recipient that a certification will no longer be acceptable and that additional information or assurances will be required;
- (3) Advise the recipient to suspend disbursement of funds for a questioned activity or to a recipient whose activities are determined not to have satisfied the applicable performance criteria under the Federal Act;
- (4) Advise the recipient to reimburse its program account, the Federal Treasury or the state in any amounts improperly expended;
- (5) In the case of a determination that the recipient or any recipient has failed to comply substantially with any provision of the Federal Act or state law, refer the matter to the US and/or State Attorneys General with a recommendation that appropriate civil action be instituted;

- (6) Condition the use of funds from any other allocation or program income upon appropriate corrective action by the recipient;
- (7) Any other action or remedy under state or federal law including, but not limited to, instituting debarment procedures against the recipient and/or its administrator or sub-recipient.

Resolution of Disagreements

Where the recipient believes the determination of the reviewer has been incorrect and resolution through normal monitoring resolution procedures has not been successful, the following steps should be followed:

- a. The recipient should request, in writing, a hearing with the IHFA Director of Community Development, at which hearing both the recipient and the reviewer shall be present. Such a request should be received by IHFA within the prescribed response period;
- b. If resolution is not reached, the recipient or IHFA may petition the State Board of Accounts for an Audit Position Statement;
- c. If resolution is not reached and the issue involves interpretation of federal requirements, either party may appeal the decision by requesting IHFA to request a written determination from the US Department of Housing and Urban Development. For issues involving state requirements, such request for a ruling may be made to the State Attorney General. In the event of such action, both parties shall prepare summary position statements. Both statements shall be simultaneously submitted to the appropriate agency, with a request for written determination prepared by IHFA. Based on the results of such determination, IHFA will prepare a final determination which will be signed by the Executive Director of IHFA, said determination to be final and conclusive.

D. OMB Circular A-133 Audit

OMB Circular A-133 governs the audit requirements of states, local governments, and non-profit organizations. OMB Circular A-133 rescinds OMB Circular A-128. OMB Circular A-133 is effective July 1, 1996, and shall apply to audits of fiscal years beginning after June 30, 1996. In the State of Indiana, responsibility of local units of government audits lies with the State Board of Accounts, (SBA). For each fiscal year in which the recipient had Community Development Block Awards open and received in \$25,000 or more in federal funds, the recipient is required to submit a copy of the State Board of Accounts audit conducted for that year to IHFA, within sixty (60) days of receipt of the final (not draft) audit report.

OMB Circular A-133 requires the following:

- Non-federal entities that expend \$500,000 or more in Federal Funds (all sources) during a fiscal year are required to have a single audit as outlined in OMB Circular A-133.
- Non-federal entities that expend less than \$500,000 in Federal Funds (all sources) during a fiscal year are exempt from Federal Audit requirements for that year, but records must be made available for review or audit by representatives of IHFA, HUD and/or General Accounting Office (GAO).

The following lists many of the significant changes that occurred because of the implementation of OMB Circular A-133.

Once an A-133 Audit has been completed, the recipient retains the responsibility for follow-up and corrective action on all audit findings. In fulfilling this responsibility, the recipient must prepare a Summary Schedule of Prior Audit Findings. This summary schedule reports the status of all audit findings included in the prior year's Schedule of Findings and Questioned Costs relative to Federal awards. The summary schedule should also include audit findings reported in the prior audit's summary schedule of prior year's audit that were not listed as corrected. The summary schedule should explain the following:

1. When audit findings were fully corrected, the summary schedule need only list the audit findings and state the corrective action taken.
2. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
3. When corrective action is significantly different from corrective action plan or in the Federal agency's management decision, the summary schedule shall provide an explanation.
4. When the recipient believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
 - (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse;
 - (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
 - (iii) A management decision was not issued.

The results of audits must be submitted to IHFA within one month of the issuance of the auditors' report.

The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The data collection to be submitted includes (1) financial statements and Schedule of Expenditures of Federal Awards; (2) the Summary Schedule of Prior Audit Findings; (3) the auditors' reports; and (4) the Corrective Action Plan.

The data collection form is designed to provide information about the auditee, its auditor, its Federal programs, and the results of the audit. The description of the data collection form's contents specifies 16 different items that can be grouped into five general categories:

1. Information about the auditor and auditee;
2. Identification of the Federal awarding agencies that will receive a copy of the reporting package;
3. Information about Federal award programs;
4. Information about the risk-based approach used by the auditor in selecting major programs; and
5. Information about the reports issued by the auditor.

E. Costs of State Board of Accounts (A-133) Audits

Because the award has already undergone administrative closure and deobligation of residual award funds in most cases, it would be difficult to reimburse such costs from CDBG or HOME funds. Therefore, recipients will be expected to bear the costs of the final audit from local funds. The recipient may include the estimated costs of the final A-133 as part of its local match for the award (based upon SBA estimates).